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IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 813

WILLIAM P. ROGERS, Attorney General of the United States, as Successor to the Alien Property Custodian

vs.

SCHERING CORPORATION, a corporation of the State of New Jersey,

Appellant,

HEXAGON LABORATORIES, INC., a corporation of the State of New York,

Intervenor-Petitioner.

PETITION OF HEXAGON LABORATORIES, INC. FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. .....

WILLIAM P. ROGERS, Attorney General of the United States, as Successor to the Alien Property Custodian

vs.

SCHERING CORPORATION, a corporation of the State of New Jersey,

Appellant,

HEXAGON LABORATORIES, INC., a corporation of the State of New York,

Intervenor-Petitioner.

PETITION OF HEXAGON LABORATORIES, INC. FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Hexagon Laboratories, Inc. (hereinafter "Hexagon"), prays that a writ of certiorari issue to review the order of the United States Court of Appeals for the Third Circuit, entered in the above case on January 8, 1959.

OPINIONS BELOW

The opinion of the Court of Appeals on which it entered its order of the same date with respect to which Hexagon here seeks certiorari is dated January 8, 1959. It holds that the order of the district court, which vacates the award of arbitrators and thus requires a new arbitration, is final and, therefore, appealable by Schering. The opinion is reported at 262 F. 2d 180, and is printed in Appendix B.

The opinion of the district court on which was entered the order from which Schering seeks to appeal to the Court of Appeals is dated August 11, 1958. It grants Hexagon's motion to vacate the award of arbitrators and thus requires a new arbitration. The opinion is reported at 165 F. Supp. 295.

The opinion of the district court on Schering's motion for construction of the final decree entered in this action is dated November 21, 1956. It holds that Hexagon is a qualified applicant for a license under the Agreement made as of January 1, 1952, between Schering and the Attorney General (hereinafter the "Agreement"), and therefore Schering is required to negotiate with, make offers to and issue licenses to Hexagon. The opinion is reported at 146 F. Supp. 106.

The opinion of the district court on which the final decree was entered herein is dated March 21, 1955. It holds that the Agreement is valid and enforceable according to its terms. It is reported at 129 F. Supp. 879, aff'd CCA 3, 228 F. 2d 624, cert. den. 351 U. S. 954.

JURISDICTION

The order of the Court of Appeals for the Third Circuit is dated and was entered on January 8, 1959. The jurisdiction of this court is invoked under 28 U. S. C. 1254 (1).

QUESTIONS PRESENTED

Is the order of the district court granting Hexagon's motion to intervene and on such intervention vacating the award of arbitrators (on the ground that one of the arbitrators is disqualified to act) and denying Schering's motion to enter judgment on said award, thus requiring a new arbitration, a final order from which the defendant, Schering, may appeal to the Court of Appeals?

STATUTES INVOLVED

28 U. S. C. 1291 is set forth in Appendix A.

STATEMENT OF FACTS

The facts might well be stated in the language of the opinion of the Court of Appeals for the Third Circuit, as follows (Appendix B, *infra*, pp. 2b, 3b):

"The stock of Schering, owned by German interests, was taken over by the Alien Property Custodian pursuant to the Trading with the Enemy Act. In 1952 the Schering stock was sold to the public, after an agreement had been entered into by the corporation with the Attorney General, as successor to the Alien Property Custodian, whereby,

inter alia, it was agreed that certain patents owned by Schering were to be licensed by it to qualified applicants on a non-exclusive basis at a reasonable royalty to be arrived at by negotiation or, if negotiation failed, by arbitration under the rules of the American Arbitration Association.

"An action was brought by the Attorney General as plaintiff to enjoin alleged violation of the agreement and for a declaratory judgment that the agreement was valid. The defendant, Schering Corporation, counterclaimed for rescission of the agreement. On July 8, 1955 the district court gave judgment for the plaintiff. 129 F. Supp. 879. The judgment was affirmed by this court on appeal.[1] 228 F. 2d 624, cert. den. 351 U. S. 954.

"On July 6, 1956 Hexagon applied to Schering for a license under Schering's Patent No. 2,567,245 to manufacture and sell an anti-histamine known as chlorprophenpyradimine maleate. The parties were unable to agree on the amount of royalty and on September 8, 1956 Hexagon demanded arbitration. On September 20, 1956 Schering moved the district court to construe its final judgment of July 8, 1955 and to determine that Hexagon was not a qualified applicant for a license within the meaning of that judgment. On January 14, 1957 the district court entered an order declaring that Schering is required in good faith to negotiate for a license with Hexagon and to arbitrate any disputes over reasonable royalties pursuant to the agreement. 146 F. Supp. 106.[2]

"Meanwhile the arbitration demanded by Hexagon in September 1956 had been begun, the first hearing having

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[1] *i.e.*, Court of Appeals, Third Circuit.

[2] The opinion is dated Nov. 21, 1956.

been held on December 20, 1956. The proceedings terminated with an award by the arbitrators on February 25, 1958. The motions by Schering to confirm the award and by Hexagon to vacate it followed. On September 22, 1958 the district court entered an order denying the motion to confirm and granting the motion to vacate. 165 F. Supp. 295. Its action was based on its finding that one of the arbitrators was disqualified to act. From this order Schering appealed."

Hexagon moved in the Court of Appeals to docket and dismiss such appeal on the ground that the order appealed from is not a final or appealable order. The motion was denied.

REASONS FOR GRANTING THE WRIT

1. The Circuit Court held that an order vacating an arbitration award, thus requiring a new arbitration, is final and appealable.

The Circuit Court's holding.

The Circuit Court lays the groundwork for its decision in the following language (Appendix B, *infra*, pp. 4b, 5b):

> "The Stathatos case, upon which Hexagon chiefly relies, seems to be out of line with these authorities. For although it was a case brought solely to compel arbitration, the majority of the court relied upon the Schoenamsgruber and Pahlberg cases. Moreover, the authority of the case is certainly impaired if it is not completely overruled by the decision of the Supreme Court in the Goodall-Sanford case and the later decisions of the Court of Appeals for the Second Circuit which we have cited above. Certainly if an

> original order to arbitrate is final and appealable a later order in the same case vacating the award resulting from the original order to arbitrate and directing another arbitration such as was made in the Stathatos case should on principle be equally final and appealable."

The Circuit Court then discussed "the rationale of the cases" dealing with orders entered in arbitration matters. It stated that an order directing arbitration during the course of a law suit, is interlocutory and therefore not appealable, because in the normal course of events there will be a later final judgment in the action from which an appeal can be taken by the person aggrieved by the earlier order to arbitrate. It said further, however, that where the order to arbitrate will not, in the course of due procedure, be followed by another order of the court in order to carry the award into effect, the order to arbitrate is final; otherwise there can be no review thereof on appeal.

The Circuit Court then said: "The latter is the situation in the present case." It held that the order of the district court which vacated the arbitration award permitted the earlier order of January 14, 1957 (directing negotiation and arbitration) to continue to operate. Accordingly, the Circuit Court reasoned, if a second arbitration is held between the parties, at the conclusion thereof they need only "insert in the license agreement the amount of royalty rate fixed by the arbitrators and sign the agreement." The Circuit Court reasoned that the second award will not require a court decree to put it into effect, and therefore, unless Schering now has a right to appeal "in all probability" it will never be able to appeal the order

of September 22, 1958. The Circuit Court concluded its opinion with the statement that the order of January 14, 1957 to negotiate and arbitrate was not made in the course of a continuing suit which sought other relief and hence was appealable. It follows therefrom, said the Circuit Court, that the order of September 22, 1958 was also appealable.

2. The effect of the Circuit Court's holding.

The decision of the Court of Appeals was rendered *en banc* (seven judges and unanimous). Thus, there is lent to it a greater weight of authority than ordinarily. The most obvious effect of the decision is to encourage piecemeal appeals contrary to the congressional policy found by this court in *Parr* v. *United States*, 351 U. S. 513, 521, reh. den. 352 U. S. 859.

3. The holding of the Third Circuit conflicts with the holdings of the Second Circuit.

In *Stathatos* v. *Arnold Bernstein S.S. Corp.*, C. A. 2d, 1953, 202 F. 2d 525, that court had before it an appeal from an order setting aside an arbitration award and directing a resubmission to arbitration. It held that such order is similar to an order granting a new trial and accordingly is interlocutory and not appealable. The Second Circuit said (pp. 526, 527):

> "While the order now at bar is a vacation of a prior award, it is in essence one which continues the proceeding for arbitration, just as do the orders in the cases just cited."

The decision of the Third Circuit boldly suggests that the authority of the *Stathatos* case "is certainly impaired

if it is not completely overruled by the decision of the Supreme Court in the *Goodall-Sanford*[3] case and the later decisions of the Court of Appeals for the Second Circuit" which it cites in its opinion. An examination of the Second Circuit cases thus cited, namely, *Compania Panemena Maritima v. J. E. Hurley Lbr. Co.*, 1957, 244 F. 2d 286, and *Farr & Co. v. Cia. Intercontinental de Navegacion*, 1957, 243 F. 2d 342, makes it clear that the Second Circuit in the *Hurley* case quotes the *Stathatos* case with approval, and the *Farr* case analyzes and does not overrule it.

4. The holdings of the Second Circuit are correct and the Third Circuit is in error.

(a) The holding of the Third Circuit is based upon a misconception of the holding of this Court in the Goodall-Sanford case and an exercise in logic based upon a non sequitur.

In the *Goodall-Sanford* case this court specifically stated that it need not consider the *Pahlberg*[4] and *Schoenamsgruber*[5] cases in arriving at its decision. 353 U. S. 550, 551. Certainly, if this court intended to impair or overrule the authority of the *Stathatos* case, it would have said so. This court held only that if "arbitration is not merely a step in the judicial enforcement of a claim nor auxiliary to a main proceeding but the full relief sought, then the order directing such arbitration is final and appealable." 353 U. S. 550, 551. However, it does not follow from this, logically or otherwise, that if the order which directs the

[3] *Goodall-Sanford v. Textile Works*, 1957, 353 U. S. 550.
[4] *In re Pahlberg Petition*, 2 Cir., 1942, 131 F. 2d 968.
[5] *Schoenamsgruber v. Hamburg Line*, 1935, 294 U. S. 454.

arbitration is appealable, then the order which vacates the award (because one of the arbitrators was disqualified to act) flowing from such direction and which requires a new hearing, is also appealable.

In *Enelow* v. *New York Life Insurance Co.*, 293 U. S. 379, this court held that an order requiring that an equitable defense interposed in an action at law, be first tried to the judge as a chancellor, is appealable. If on such trial, the judge should grant judgment in favor of the defendant and the plaintiff should thereafter move for a new trial for good cause and an order be entered vacating the judgment and granting such new trial, no one would argue that because the order directing the trial to the judge as a chancellor was appealable, an order which vacated his judgment and directed a new trial was also appealable. There is nothing more well grounded in our appellate law, nor are the decisions in the various circuits of our courts of appeals more uniform than on the point that an order which vacates a judgment and grants a new trial is not appealable. *Gallon* v. *Lloyd-Thomas Co.*, 1959, 261 F. 2d 26.

This is the simple situation at bar. The award which was made by the board of arbitrators has been set aside by the district court. A new arbitration is to be held. In the language of the decision of the Second Circuit in the *Stathatos* case we find that the order is, in essence, one which continues the proceedings for arbitration just as do the orders in the cases vacating judgments and directing new trials.

(b) The logic in the opinion of the Third Circuit is based upon a false premise.

One basis for the opinion of the Third Circuit is its misconception of the order of the district court dated January 14, 1957. 146 F. Supp. 106.

On July 8, 1955 the district court entered its final decree in this action. By such decree it was adjudged that the Agreement between the Attorney General and the defendant, made as of January 1, 1952, is lawful and enforceable. One of the incidents of said final decree is that Schering is required to "negotiate in good faith with applicants for licenses * * * and to issue licenses to qualified applicants." The court retained jurisdiction to entertain further applications. 129 F. Supp. 879, D. N. J., 1955, aff'd 3 Cir., 1956, 228 F. 2d 624, cert. den. 1956, 351 U. S. 954.

On September 20, 1956 Schering moved the district court to construe its decree by advising of the meaning of the word "qualified" and to determine that Hexagon was not "qualified". 146 F. Supp. 106, 107.

Hexagon was not then a party to the action. 146 F. Supp. 106, 108. The motion was opposed by the plaintiff, Attorney General.

On November 21, 1956 the district court filed its opinion on such motion, holding that Hexagon is a qualified applicant and therefore Schering "is required to negotiate in good faith with (Hexagon) * * * for licenses * * * and to make offers to and to issue licenses to Hexagon." 146 F. Supp. 106, 109.

On January 14, 1957 the district court entered its order on Schering's motion to construe the word "qualified"

requiring Schering, *inter alia*, "to negotiate for a license with Hexagon and to arbitrate any disputes over reasonable royalties pursuant to the agreement." (Appendix B, p. 2b).

Neither Hexagon nor the plaintiff, Attorney General, at any time made a motion either in the pending action or pursuant to the United States Arbitration Act, 9 U. S. C., or any other arbitration act to compel arbitration. The order upon which the Court of Appeals relies is an order which was made in this action on the motion of Schering Corporation for an interpretation of the final decree already entered by the court.

The ultimate relief sought in the case at bar was not arbitration. The plaintiff, Attorney General, brought an action to enjoin the violation of the Agreement by the defendant, Schering, and for a declaratory judgment that the Agreement was valid.

The ultimate relief sought by the motion which resulted in the district court's order of January 14, 1957, was not arbitration. Schering's motion sought an interpretation of the final decree (which held the Agreement to be valid and required Schering to negotiate with and issue licenses to "qualified applicants") with respect to the words "qualified applicants".

At no time did anyone ask the district court of any other court, for an order, decree or judgment under which the ultimate relief sought was arbitration. Such relief flowed merely as an incident to the relief sought by the Attorney General in the main action and the interpretation of the judgment entered therein sought by Schering on its motion.

It would appear, therefore, that the Third Circuit has misinterpreted the decision of this court in the *Goodall-Sanford* case. This court clearly held in such case that it was only when arbitration is the full relief sought rather than merely a step in the judicial enforcement of a claim or auxiliary to the main proceedings, that the order directing such arbitration is final and appealable.

(c) The Third Circuit's error in assuming that unless Schering now has the right to appeal it may never be able to secure an appellate review of the order vacating the arbitration award also gave rise to its erroneous interpretation of the law.

Inherent in the Circuit Court's interpretation of the law was its mistaken conception of the right or ability of Schering to secure an appellate review of the order vacating the order of arbitrators.

In the present posture of the case, the parties and the Third Circuit are in agreement that Schering is required to carry out a second arbitration. If, as the Court of Appeals for the Third Circuit states, thereafter Schering is willing "to insert in the license agreement the amount of royalty rate fixed by the arbitrators and sign the agreement", then Schering is not aggrieved either by the award in the second arbitration or by the order from which it now seeks to appeal and which vacated the award flowing from the first arbitration. Accordingly, there need never be a judicial review of the order. On the other hand, if Schering is aggrieved by the award in the second arbitration it will *not* "insert in the license agreement the royalty rate fixed by the arbitrators and sign the agreement". The second

award then would "require judicial approval or a court decree to put it into effect." Schering would then be in a position to take an appeal from such order which would bring up for review the order from which it now seeks to appeal.

CONCLUSION

The issue in this case is whether piecemeal appeals will be permitted contrary to the congressional policy. The decision of the court below is the only reported case holding that an order of the district court which vacates the award of arbitrators and thus requires a second arbitation is a final and appealable order. This holding is in direct conflict with the holdings of the Second Circuit that such order is not final and is not appealable. The question is one which has not been, but which should be, settled by this court.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

ALLAN L. TUMARKIN,
Attorney for Hexagon Laboratories, Inc., Intervenor,
9 Clinton Street,
Newark, New Jersey.

MONTROSE H. MASSLER,
THEODORE R. KUPFERMAN,
of Counsel.

APPENDIX A

Statutes Involved

28 U. S. C. 1291, as amended

Final decisions of district courts

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court.

APPENDIX B

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

WILLIAM P. ROGERS, ATTORNEY GENERAL OF THE UNITED STATES

v.

SCHERING CORPORATION,

Appellant.

ON MOTION TO DOCKET AND DISMISS APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Argued December 1, 1958

Before BIGGS, *Chief Judge*, and MARIS, GOODRICH, MCLAUGHLIN, KALODNER, STALEY and HASTIE, *Circuit Judges*.

OPINION OF THE COURT

(Filed January 8, 1959)

By MARIS, *Circuit Judge*.

Hexagon Laboratories, Inc., an intervenor in the district court, has moved to docket and dismiss an appeal taken by the defendant, Schering Corporation, from an order of the district court denying Schering's motion to confirm an award of arbitrators and granting the motion

of the intervenor to vacate the award. The background facts will be summarized briefly.

The stock of Schering, owned by German interests, was taken over by the Alien Property Custodian pursuant to the Trading with the Enemy Act. In 1952 the Schering stock was sold to the public, after an agreement had been entered into by the corporation with the Attorney General, as successor to the Alien Property Custodian, whereby, inter alia, it was agreed that certain patents owned by Schering were to be licensed by it to qualified applicants on a non-exclusive basis at a reasonable royalty to be arrived at by negotiation or, if negotiation failed, by arbitration under the rules of the American Arbitration Association.

An action was brought by the Attorney General as plaintiff to enjoin alleged violation of the agreement and for a declaratory judgment that the agreement was valid. The defendant, Schering Corporation, counterclaimed for rescission of the agreement. On July 8, 1955 the district court gave judgment for the plaintiff. 129 F. Supp. 879. The judgment was affirmed by this court on appeal. 228 F. 2d 624, cert. den. 351 U.S. 954.

On July 6, 1956 Hexagon applied to Schering for a license under Schering's Patent No. 2,567,245 to manufacture and sell an anti-histamine known as chlorprophenpyradimine maleate. The parties were unable to agree on the amount of royalty and on September 8, 1956 Hexagon demanded arbitration. On September 20, 1956 Schering moved the district court to construe its final judgment of July 8, 1955 and to determine that Hexagon was not a qualified applicant for a license within the meaning of that judgment. On January 14, 1957 the district court entered an order declaring that Schering is required in good faith to negotiate for a license with Hexagon and to arbitrate any disputes over reasonable royalties pursuant to the agreement. 146 F. Supp. 106.

Meanwhile the arbitration demanded by Hexagon in September 1956 had been begun, the first hearing having been held on December 20, 1956. The proceedings terminated with an award by the arbitrators on February 25, 1958. The motions by Schering to confirm the award and by Hexagon to vacate it followed. On September 22, 1958 the district court entered an order denying the motion to confirm and granting the motion to vacate. 165 F. Supp. 295. Its action was based on its finding that one of the arbitrators was disqualified to act. From this order Schering appealed. The motion to dismiss that appeal which is now before us raises the question whether the order appealed from has appealable finality.

In support of its motion Hexagon argues that the order vacating the arbitration award is essentially similar to an order granting a new trial in a civil action, since a new arbitration proceeding must follow under the agreement and prior order of the district court. It relies upon Stathatos v. Arnold Bernstein S.S. Corp., 2 Cir. 1953, 202 F. 2d 525, for this proposition. In that case the court held, one judge dissenting, that an order vacating a prior arbitration award and directing a resubmission to new arbitrators was but a step in a continuing process of arbitration and, therefore, lacked appealable finality.

We think that the present case is distinguishable from the Stathatos case in that here the court merely vacated the arbitrator's award and refrained in its order from directing a new arbitration although requested by Hexagon to do so. It is probably true, as Hexagon now argues, that such a direction was unnecessary in view of the fact that the court's order of January 14, 1957 directing Schering to arbitrate, if necessary to arrive at a royalty rate, remained in effect and was binding on Schering. It is upon this theory that Hexagon urges upon us our decision in United States v. Agne, 3 Cir. 1947, 161 F. 2d 331, as au-

thority in support of its motion. In that case we held that an order vacating a default decree which had been entered in favor of the Government in a suit to cancel a certificate of naturalization, was no more final than an order granting a new trial and was, therefore, not appealable. That, however, was a purely judicial proceeding and after the vacation of the default decree it still remained for the court to hear and determine the Government's request for the revocation of the defendant's citizenship.

It is settled that an order for arbitration is a final appealable decision where it is not merely a step in the judicial enforcement of a claim nor auxiliary to a main proceeding but is the full relief sought. Goodall-Sanford v. Textile Workers, 1957, 353 U.S. 550; Compania Panemena Maritima v. J. E. Hurley Lbr. Co., 2d Cir. 1957, 244 F. 2d 286; Farr & Co. v. Cia. Intercontinental de Navegacion, 2 Cir. 1957, 243 F. 2d 342; Continental Grain Co. v. Dant & Russell, 9 Cir. 1941, 118 F. 2d 967; In re Canadian Gulf Line, 2 Cir. 1938, 98 F. 2d 711. Such cases are to be distinguished from those in which an order for arbitration is made in the course of a continuing suit for other relief. Schoenamsgruber v. Hamburg Line, 1935, 294 U.S. 454, and In re Pahlberg Petition, 2 Cir. 1942, 131 F. 2d 968, were cases of the latter sort.

The Stathatos case, upon which Hexagon chiefly relies, seems to be out of line with these authorities. For although it was a case brought solely to compel arbitration, the majority of the court relied upon the Schoenamsgruber and Pahlberg cases. Moreover, the authority of the case is certainly impaired if it is not completely overruled by the decision of the Supreme Court in the Goodall-Sanford case and the later decisions of the Court of Appeals for the Second Circuit which we have cited above. Certainly if an original order to arbitrate is final and appealable a later order in the same case vacating the award resulting from

the original order to arbitrate and directing another arbitration such as was made in the Stathatos case should on principle be equally final and appealable.

It would appear that the underlying rationale of the cases, although not often expressed in these terms, is that an order directing arbitration is interlocutory and, therefore, not appealable if it is made in a lawsuit, such as a suit for damages, in which in the normal course of judicial procedure there will be a later final order or judgment from which an appeal can be taken by a person aggrieved by the prior order to arbitrate. If, however, the order to arbitrate will not in normal course of procedure be followed by another judicial order which will be required to carry the arbitration award into effect, the order to arbitrate must be regarded as final if the right to review it on appeal is to be given.

The latter is the situation in the present case. For the order of September 22, 1958 vacating the arbitration award merely opened the way for the continued operation of the prior order directing the parties to negotiate the royalty rate to be inserted in Schering's patent license to Hexagon and if necessary to arbitrate it. If the order of September 22, 1958 stands and the parties do carry out a second arbitration all that will remain to be done will be for them to insert in the license agreement the amount of the royalty rate fixed by the arbitrators and sign the agreement. Certainly the award will not require judicial approval or a court decree to put it into effect. Therefore, unless Schering now has a right to appeal from the order of September 22, 1958 it will in all probability never be able to secure an appellate review of that order.

The order made by the district court in this case on January 14, 1957 to negotiate and arbitrate was undoubtedly a final appealable order since it was not made in the course of a continuing suit which sought other relief.

It follows from what has been said that the order here appealed from was also a final appealable order even though its effect was to leave in force for future observance by the parties the prior order of the court directing arbitration.

The motion to dismiss the appeal will be denied.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit.

APPENDIX C

IN THE

UNITED STATES COURT OF APPEALS

THIRD CIRCUIT

No. 12,816

WILLIAM P. ROGERS, Attorney General of the United States

v.

SCHERING CORPORATION

Appellant

To:

United States Attorney
Federal Building
Newark, N. J.

Milton, McNulty & Augelli, Esqs.
Attorneys for Appellant
40 Journal Square
Jersey City 6, N. J.

SIRS:

PLEASE TAKE NOTICE, that the undersigned will bring the attached motion on for hearing before the United States Court of Appeals for the Third Circuit, at the Federal Courthouse, Market and Ninth Streets, City of Philadelphia, State of Pennsylvania, on the 17th day of November, 1958, at 10:30 A.M., or as soon thereafter as counsel can be heard.

Dated: Newark, New Jersey
November 6th, 1958

ALLAN L. TUMARKIN
Attorney for Hexagon Laboratories, Inc.
Intervenor-Appellee
9 Clinton Street
Newark, New Jersey

2c

IN THE

UNITED STATES COURT OF APPEALS

THIRD CIRCUIT

No. 12,816

WILLIAM P. ROGERS, Attorney General of the United States

v.

SCHERING CORPORATION

Appellant

MOTION TO DOCKET AND DISMISS APPEAL

Hexagon Laboratories, Inc., a New York Corporation (hereinafter "Hexagon"), Intervenor-Appellee, moves this Court to docket and dismiss the appeal herein with costs, on the ground that the judgment or order appealed from is not a final or appealable judgment or order.

ALLAN L. TUMARKIN
Attorney for Hexagon Laboratories, Inc.
Intervenor-Appellee
9 Clinton Street
Newark, New Jersey

APPENDIX D

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

WILLIAM P. ROGERS, Attorney General of the United States, as Successor to the Alien Property Custodian

vs.

SCHERING CORPORATION, a corporation of the State of New Jersey,

Appellant

HEXAGON LABORATORIES, INC., a corporation of the State of New York,

Intervenor

Present: BIGGS, Chief Judge, and MARIS, GOODRICH, McLAUGHLIN, KALODNER, STALEY and HASTIE, Circuit Judges.

It is ORDERED that the motion to dismiss the appeal in the above-entitled case be, and it is hereby denied.

Attest: IDA O. CRESKOFF
Clerk

January 8, 1959

FILE COPY

Court, U.S.
MAY 1 1959
JAMES R. BROWNING, Clerk

IN THE

Supreme Court of the United States

October Term, 1958

No. 813

WILLIAM P. ROGERS, Attorney General of the United States, as Successor to the Alien Property Custodian,

vs.

SCHERING CORPORATION, a corporation of the State of New Jersey,

Respondent,

HEXAGON LABORATORIES, INC., a corporation of the State of New York,

Intervenor-Petitioner.

RESPONDENT'S BRIEF AND APPENDIX IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

October Term, 1958

No. 813

WILLIAM P. ROGERS, Attorney General of the United States, as Successor to the Alien Property Custodian,

vs.

SCHERING CORPORATION, a corporation of the State of New Jersey,

Respondent,

HEXAGON LABORATORIES, INC., a corporation of the State of New York,

Intervenor-Petitioner.

To the Honorable, the Chief Justice and the Associate Justices of the Supreme Court of the United States:

This brief is submitted in opposition to the petition for a writ of certiorari directed to the Court of Appeals for the Third Circuit to review a judgment of that Court holding an order vacating an arbitration award to be appealable under 28 U. S. C. 1291. The basis for the jurisdiction of this Court and references to the opinions below are correctly set forth in the petition (P 2, 3).*

*As hereinafter used in this brief P represents Petition, PA Petitioner's Appendix, and RA Respondent's Appendix.

STATUTES INVOLVED

9 U. S. C. 9 and 10, and 28 U. S. C. 1291, as amended, set forth in (RA 17-19) to this brief.

QUESTION PRESENTED

Is the order of the District Court denying respondent's application under 9 U. S. C. 9, to enter judgment on an arbitration award, and which granted petitioner's cross-application under 9 U. S. C. 10, to vacate said arbitration award, an appealable order within the meaning of 28 U. S. C. 1291?

STATEMENT OF THE CASE

Stripped of all non-essentials, we have here the following situation: After the agreement of January 1, 1952, between the Attorney General of the United States and respondent was held to be valid and enforceable (129 F. Supp. 879; aff'd. 228 F. 2d 624 Cert. den. 351 U. S. 954) and after Hexagon had been determined to be a qualified applicant within the meaning of said agreement (146 F. Supp. 106), the respondent and petitioner voluntarily proceeded to arbitration pursuant to the applicable arbitration clause contained in said agreement. The arbitration resulted in an award. The respondent applied to have that award confirmed and to have judgment entered thereon under Section 9 of the United States Arbitration Act (RA 21). The petitioner subsequently filed a cross-application to have that award set aside under Section 10 of said Act (RA 21).

These independent applications came on for a common hearing before the District Court and resulted in the order presently under review, which denied respondent's application to confirm the award and enter judgment thereon and granted the petitioner's cross-application to vacate the same (RA 20). The order thus adjudicated all issues raised by the pleadings. That such an order, in either or both aspects, is a final order within the meaning of 28 U. S. C. 1291, and hence appealable, is clear on the basis of the authorities hereinafter cited.

The only litigation that the petitioner can point to in support of its contention that the order in this case was made in the course of a continuing suit, is the action instituted by the Attorney General of the United States against the respondent to have determined the validity and enforceability of the agreement of January 1, 1952. That litigation, to which the petitioner was not a party, by final order dated July 8, 1955 (RA 22-23), decided all the issues raised by the pleadings and the court, in keeping with common chancery practice, retained jurisdiction to entertain further applications with respect to relief as further circumstances may require.

Pursuant to the retention of jurisdiction by the District Court in its final order of July 8, 1955, respondent, by motion, applied to the court to have its said order of July 8, 1955, construed to ascertain petitioner's qualifications under said order and the agreement. By order dated January 14, 1957 (RA 24-26), the court determined that petitioner was a qualified applicant. This order of January 14, 1957, thus adjudicated the only issue presented by the pleadings in that application.

In fact, the only recourse to the District Court after the arbitrators had made their award was the respondent's invocation of Section 9 of the United States Arbitration Act to have judgment entered on the award of the arbi-

trators and petitioner's application to intervene* and its invocation of Section 10 to have the award vacated. That and that alone is the only litigation involved in this matter.

For the convenience of the Court we have set forth (RA 27-30) in this brief, Article VI of the agreement of January 1, 1952, which contains the provisions relevant to arbitration.

REASONS FOR DENYING THE WRIT

Rule 19 of this Court indicates the basis for consideration of applications of this kind. Petitioner has utterly failed to show the existence of any special and important reasons why this Court should review the order of the Court of Appeals. Contrary to what is alleged by the petitioner, the order permitting appeal does not violate the Congressional policy expressed in 28 U. S. C. 1291. In fact, the order of the District Court granted the full relief sought by the pleadings and was, therefore, final and appealable under the cited statute. Furthermore, there is no conflict between the decision rendered by the Court of Appeals for the Third Circuit and the decision of any other Court of Appeals in the same matter.

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* Petitioner's application to intervene was completely superfluous because petitioner had been previously served and brought before the District Court by respondent's application to enter judgment on the arbitration award.

ARGUMENT

POINT I

The order appealed from was entered in independent applications and adjudicated all issues raised by the pleadings.

A

The proceedings in the District Court were independent applications and not steps in a continuing suit.

The petitioner erroneously assumes that the order of the District Court vacating the arbitration award of necessity required a new arbitration. This completely overlooks the obligation imposed upon the parties by Article VI of the Agreement of January 1, 1952, to first negotiate for a reasonable royalty rate. The Court of Appeals, in its opinion, recognized the existence of such an obligation (PA 56).

The obligation of the petitioner and respondent to negotiate and arbitrate arose solely out of Article VI of the agreement entered into as of January 1, 1952, between the Attorney General of the United States and the respondent (RA 28). The validity of that agreement was established by the District Court's final order of July 8, 1955 (RA 22-23). That order, inter alia, expressly adjudged that said agreement of January 1, 1952, was a lawful and enforceable contract and imposed upon the respondent the obligation to perform the agreement according to its terms and in good faith; and also that respondent was required to negotiate in good faith with applicants for licenses under Article VI of said agreement and to make offers to and to issue licenses to qualified applicants.

Said Article VI, in paragraph C(2) thereof, provides that upon the inability of the respondent and the applicant

for a license to agree upon a reasonable royalty within 60 days from the date of the receipt by respondent of the application for a license either party may resort to arbitration.

Pursuant to the provisions of Article VI of the agreement of January 1, 1952, petitioner, by letter dated July 6, 1956 (RA 31) applied to respondent for a license to make, use and sell a patented drug. Respondent, by letter dated August 6, 1956 (RA 32) suggested what it considered to be a reasonable royalty rate for the drug in question. By letter dated August 21, 1956 (RA 33) petitioner notified respondent that the royalty proposed was not acceptable, and suggested a lower royalty rate. In said letter petitioner also elected, pursuant to the terms of said agreement of January 1, 1952, to accept an interim license upon the terms suggested by respondent, and also notified respondent that it intended to invoke the arbitration provisions of Article VI of the agreement of January 1, 1952. Following this, petitioner, by letter dated September 8, 1956 (RA 35) formally notified respondent that it demanded arbitration under the provisions of Article VI of the agreement of January 1, 1952, to have determined a reasonable royalty rate for the licensed product.

A prior business transaction (letter contract of April 2, 1954) referred to in paragraph (b) of the District Court's order of January 14, 1957 (RA 25) between respondent and petitioner posed a question as to whether or not petitioner was a qualified applicant within the meaning of that term as used in the agreement of January 1, 1952, and the final order establishing the validity of that agreement dated July 8, 1955. Respondent sought to resolve this question by motion, which resulted in the order of the District Court dated January 14, 1957. That order determined that petitioner was a qualified applicant. It did not, as is admitted by petitioner on page 11 of its petition, direct arbitration. Additionally, said order of January 14, 1957,

confirmed respondent's obligations under Article VI of the agreement of January 1, 1952. It is also admitted by petitioner that at no time during the pendency of any of this litigation, was any motion made to compel arbitration (P 11).

From the foregoing facts it is indisputable that the arbitration proceeding giving rise to the order complained of was not, in any sense, "merely a step in judicial enforcement of a claim, nor auxiliary to a main proceeding". *Goodall-Sanford, Inc.* v. *United Textile Workers, etc.*, 353 U. S. 550, 551 (1957), 77 S. Ct. 920, 921. Illustrative of the non-appealability of an arbitration order in a continuing suit is *Schoenamsgruber* v. *Hamburg-American Line*, 294 U. S. 454, 55 S. Ct. 475, and the decision in the case of *In Re Pahlberg Petition*, 131 F. 2d 968 (2 Cir. 1942).

In the *Schoenamsgruber* case, this Court stated that an order which was made in a pending action for damages, directing an arbitration and retaining jurisdiction to pass upon the arbitration award after it was reported to the court, was interlocutory and not appealable. The pending action for damages in that case was the main proceeding, and the order directing arbitration was just another method of determining the rights of the parties, and was in fact merely a step in the judicial enforcement of the claim for damages. Thus, the order appointing the arbitrators in *Schoenamsgruber* would be reviewable upon the entry by the court of its final judgment in the main proceeding. *Goodall-Sanford* case, *supra*.

In the case of *In Re Pahlberg*, the order to proceed to arbitration was merely a step in judicial enforcement of a claim in a pending action for damages by the charterer of a vessel against the owners thereof. From an order of the District Court directing the parties to proceed to arbitration under the provisions of the charter involved in that action, the owners appealed. The Court of Appeals for the

Second Circuit, under the authority of the *Schoenamsgruber* case, held the order to be interlocutory and hence not final and appealable. A supplement to the facts recited in the *Pahlberg* opinion in the Second Circuit appears in the dissenting opinion of Judge Frank, in the case of *Stathatos* v. *Arnold Bernstein S.S. Corp.*, 202 F. 2d 525, 528 (2 Cir. 1953).

An examination of the applicable authorities discloses that there are two types of cases dealing with the appealability of orders relating to arbitration.

In the first, if the order for arbitration is not merely a step in the judicial enforcement of a claim nor auxiliary to a main proceeding, but is the full relief sought by the pleadings, such order is a final appealable decision. Illustrative are the cases of *Goodall-Sanford* v. *Textile Workers*, 353 U. S. 550 (1957); *Compania Panemena Maritima* v. *J. E. Hurley Lbr. Co.*, 244 F. 2d 286 (2 Cir. 1957); *Farr & Co.* v. *Cia. Intercontinental de Navegacion*, 243 F. 2d 342 (2 Cir. 1957); *Continental Grain Co.* v. *Dant & Russell*, 118 F. 2d 967 (9 Cir. 1941); *In re Canadian Gulf Line*, 98 F. 2d 711 (2 Cir. 1938); *Krauss Bros. Lumber Co.* v. *Louis Bossert & Sons, Inc.*, 62 F. 2d 1004 (2 Cir. 1933); *The Sydfold*, 25 F. Supp. 662.

On the other hand, if the order for arbitration is made in the course of a continuing suit for other relief, such order is interlocutory and not appealable. Illustrative of this second class of cases are *Schoenamsgruber* v. *Hamberg-American Line*, 294 U. S. 454 (1935); *In Re Pahlberg Petition*, 131 F. 2d 968 (2 Cir. 1942); *Craighead* v. *Wilson*, 59 U. S. 332, 333, 18 How. 199; *Rexford* v. *Brunswick-Balke-Collender Co.*, 228 U. S. 339, 33 S. Ct. 515, 518.

The Court of Appeals for the Third Circuit recognized the distinction between the two types of cases, when it said:

"It would appear that the underlying rationale of the cases, although not often expressed in these terms, is that an order directing arbitration is interlocutory and, therefore, not appealable if it is made in a lawsuit, such as a suit for damages, in which in the normal course of judicial procedure there will be a later final order or judgment from which an appeal can be taken by a person aggrieved by the prior order to arbitrate. If, however, the order to arbitrate will not in normal course of procedure be followed by another judicial order which will be required to carry the arbitration award into effect, the order to arbitrate must be regarded as final if the right to review it on appeal is to be given." (PA 56)

The soundness of the quoted language is amply demonstrated by the case of *Farr & Co. v. Cia. Intercontinental de Navegacion*, 243 F. 2d 342 (2 Cir. 1957). In that case the Court said, at pages 344, 345:

"The appellee contends that the order is interlocutory and not appealable. In two cases involving orders, pursuant to 9 U. S. C. A. §4, to proceed to arbitration, this court has held such an order a final judgment and as such appealable. The matter was first considered in Krauss Bros. Lumber Co. v. Louis Bossert & Sons, 2 Cir., 62 F. 2d 1004, 1005, where Judge L. Hand said that the order is the 'last deliberative action of the court.' This was followed in In re Canadian Gulf Line, 2 Cir., 98 F. 2d 711, 713. In The Sydfold, D. C. S. D. N. Y., 25 F. Supp. 662, Judge Patterson also considered an order directing arbitration to be a final order. In two other cases we have assumed appealability without discussion. In re Utility Oil Corporation, 2 Cir., 69 F. 2d 524, certiorari denied Petroleum Nav. Co. v. Utility Oil Corp., 292 U. S. 655, 54 S. Ct. 866, 78 L. Ed. 1504; Petition of Nortuna Shipping Company (Nortuna Shipping Company v. Isbrandtsen Company), 2 Cir., 231 F. 2d 528.

Other circuits have also held such orders appealable as a final judgment.[3] The appellee argues that the above mentioned cases in this circuit have been impliedly, if not actually, overruled by our later decisions in In re Pahlberg Petition, 131 F. 2d 968 and Stathatos v. Arnold Bernstein S.S. Corp., 202 F. 2d 525. We do not agree. Any seeming inconsistency between the cases previously cited and the two relied upon by the appellee can be resolved by noting that in the former the order to compel arbitration was made in an independent proceeding under section 4 of the Act, while in the latter the order was made in the course of a continuing suit."

The case at bar is of the type wherein the full relief sought by the pleadings was granted. This is apparent from a consideration of the concomitant rights and duties of the court and the parties to an arbitration. A description of this relationship is set forth by Judge Learned Hand in *Krauss Bros. Lumber Co.* v. *Louis Bossert & Sons*, 62 F. 2d 1004 (2 Cir. 1933). In that case there was an appeal from an order appointing arbitrators. Judge Hand said, at page 1005:

"The purpose of arbitration is essentially an escape from judicial trial; the court takes a hand only so far as some sanction is necessary to compel performance of the agreement to adopt the means provided. It is true that under Section 9 of Title 9 (USCA) the successful party may enforce the award by judgment, on which execution will go under Section 13. But the judgment follows automatically unless the award has been vacated under Section 10, and that

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[3] Goodall-Sanford, Inc., v. United Textile Workers, 1 Cir., 233 F. 2d 104, certiorari granted 352 U. S. 822, 77 S. Ct. 61, 1 L. Ed. 2d 46; American Locomotive Co. v. Gyro Process Co., 6 Cir., 185 F. 2d 316; Continental Grain Co. v. Dant & Russell, 9 Cir., 118 F. 2d 967. An excellent discussion of the subject appears in 66 Yale L. J. 293."

is an independent application. So far as the arbitration proceeding itself is concerned, the last deliberative action of the court is the appointment of the arbitrators, who thereupon take over the controversy and dispose of it. Their disposition is not, properly speaking, reviewed by the court, in spite of possible disturbance under Sections 10 and 11. It seems to us therefore that the decree is final and appealable."

A cursory examination of Section 9 of the Arbitration Act discloses that applications thereunder are inherently independent in nature. Provision is made for the entry of a judgment on an award only upon notice to the adverse party, by which action the court acquires jurisdiction over such party. These provisions emphasize the independent nature of the proceeding, it being apparent that if such application was merely a step in a pending cause, there would be no need for the court to acquire jurisdiction over any adverse party because such party would already be in court by virtue of the pending judicial proceeding. The same observations may be made with respect to applications to vacate an arbitration award under Section 10, such applications being governed by the provisions of Section 12 of the Act. As Judge Hand so aptly noted, such a motion to vacate is "an independent application".

It is manifest that the applications in the District Court in this case were independent proceedings and not merely steps in the judicial enforcement of a claim. Since, in an independent proceeding, an order under Section 4 directing arbitration is unquestionably appealable, it follows, *a fortiori*, that an order is appealable when made by the court upon application of one of the parties for some sanction of the arbitration award resulting from the voluntary submission of the parties in accordance with an agreement to arbitrate.

B

The order on appeal adjudicated all the issues raised by the pleadings.

The respondent's application to enter judgment on the arbitration award contained the following prayer for relief:

> "Wherefore, premises considered, Schering Corporation respectfully moves this Honorable Court to enter an order making the award of Messrs. Fanto, Handler, and Sc woon dated February 25, 1958, fixing the rate of the re sonable royalty to be paid by Hexagon Laboratories, Inc. to the Schering Corporation for the right to make, use and sell Chlorprophenpyridamine Maleate under Patent No. 2,567,245, the judgment of this Court." (RA 21)

The petitioner's cross-application to vacate the arbitration award contained the following prayer for relief:

> "(a) construe its final order and decree dated July 8, 1955;
>
> "(b) vacate the award of the arbitrators dated February 25, 1958; and
>
> "(c) grant such other and further relief as to the court may seem just in the premises," (RA 21)

The order appealed from granted the full relief sought by the petitioner and denied *in toto* the relief requested by the respondent.

The respondent's application to enter judgment on the arbitration award, and petitioner's cross-application to vacate the same, were both independent applications within the meaning of the language of Judge Hand in the *Krauss* case, *supra*.

The order appealed from, denying respondent's application and granting that of the petitioner, adjudicated all

matters raised by the pleadings. Consideration of this order in either or both aspects, leads inescapably to the conclusion that such order was the "last deliberative action of the court" and hence a final decision, appealable under 28 U. S. C. 1291.

It is apparent that the order appealed from was made in independent applications and adjudicated every issue raised by respondent's pleading and petitioner's pleading.

The denial of respondent's application was actually a dismissal of its action, resulting in a final and appealable order.

The granting of petitioner's application was the last deliberative action of the court, resulting in a final and appealable order.

POINT II

There is no conflict between the decision of the Court of Appeals for the Third Circuit and the decision of any other Court of Appeals.

The Court of Appeals for the Third Circuit expressly stated that the case at bar is to be distinguished from the *Stathatos* case, decided by the Court of Appeals for the Second Circuit. The court observed:

> "We think that the present case is distinguishable from the Stathatos case in that here the court merely vacated the arbitrator's award and refrained in its order from directing a new arbitration although requested by Hexagon to do so". (PA 36)

This statement by the Court of Appeals negatives the existence of a conflict between its decision and that of the Court of Appeals for the Second Circuit in the *Stathatos* case. The courts were dealing with different factual situa-

tions. The reasoning behind the decision in *Stathatos*, holding that the order in that case was not appealable, is predicated upon the factual determination made by that court that the order was nothing more than a step in a continuing proceeding. This interpretation is confirmed by the later decision of the same court in *Farr & Co.* v. *Cia. Intercontinental de Navegacion*, 243 F. 2d 342 (2 Cir. 1957). By regarding the order vacating the arbitration award and directing resubmission to arbitration as but a step in the arbitration process, a step in a continuing proceeding, the Second Circuit correctly applied the law concerning finality. But, as heretofore indicated, the order appealed from in the case at bar is different from the *Stathatos* order. The order appealed from, as interpreted by the Third Circuit, is not "a step in a continuing proceeding", but is an order which granted "the full relief sought" by the pleadings. Hence, the order is final and appealable under 28 U. S. C. 1291.

The rules or principles of law relating to the appealability *vel non* of orders concerning arbitrations are the same in the Second, Third and other Circuits.

The cases herein cited clearly establish that when an arbitration order is made in the course of a continuing suit it is interlocutory and not final and appealable.

And the law is just as clear that where an order in an arbitration proceeding grants the full relief sought by the pleadings, it is a final decision and therefore appealable, 28 U. S. C. 1291.

What the petitioner seeks to do here is to torture the facts of the case at bar so as to bring such facts within the principle applied in the *Stathatos* case, i.e. that an arbitration order made in a continuing suit is not appealable.

The Third Circuit recognized the existence of this principle, but held that it was not applicable to the facts of the case before it.

The order before the Third Circuit was one that was made in an independent proceeding and which adjudicated all issues raised by the pleadings.

This factual determination made by the Court of Appeals required it to apply the principle of *Goodall-Sanford, Inc.* v. *United Textile Workers, etc.*, 353 U. S. 550, holding such an order to be a "final decision" within the meaning of 28 U. S. C. 1291, and such factual determination precluded the application of the doctrine of *Schoenamsgruber* v. *Hamburg-American Line*, 294 U. S. 454.

POINT III

Certiorari will not be granted to obtain piecemeal review.

This Court has on numerous occasions expressed its reluctance to grant certiorari in cases involving piecemeal review. *American Construction Co.* v. *Jacksonville T. & K. W. Ry. Co.*, 148 U. S. 372 (1893), 13 S. Ct. 758, 764. Petitioner will not be prejudiced by this Court's refusal to review, at this time, the question involved. This Court should defer review until a determination has been made by the Court of Appeals on the merits of the case. For aught appearing, the Court of Appeals, in its decision on the merits, may determine that the District Court correctly vacated the arbitration award, in which event the need for relief presently requested by petitioner would become moot. On the other hand, the Court of Appeals may reverse the order of the District Court and enter judgment for respondent on the arbitration award, in which event this Court would then have before it the complete record for review and it at that time could determine the appealability of the District Court's order of September 22, 1958.

CONCLUSION

For the reasons set forth in this brief it is apparent that:

(a) the order appealed from is a final decision under 28 U. S. C. 1291;

(b) there exists no conflict between the decision in the case at bar and the decision in the *Stathatos* case;

(c) we do not have here an important federal question which has not been settled by this Court; and

(d) the Third Circuit, in its decision in this matter, has not decided a federal question which in any way conflicts with applicable decisions of this Court.

Under the circumstances, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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APPENDIX

9 U.S.C. 9

§9. Award of arbitrators; confirmation; jurisdiction; procedure

"If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award and thereupon the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made. Notice of the application shall be served upon the adverse party, and thereupon the court shall have jurisdiction of such party as though he had appeared generally in the proceeding. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident, then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court. July 30, 1947, c. 392 §1, 61 Stat. 669."

Appendix

9 U. S. C. 10

§10. Same; vacation; grounds; rehearing

"In either of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

(a) Where the award was procured by corruption, fraud, or undue means.

(b) Where there was evident partiality or corruption in the arbitrators, or either of them.

(c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(d) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

(e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators. July 30, 1947, c. 392, §1, 61 Stat. 669."

Appendix

28 U. S. C. 1291

§1291. Final decisions of district courts

"The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court. As amended Oct. 31, 1951, c. 655, §48, 65 Stat. 726; July 7, 1958, Pul. L. 85-508, §12(e), 72 Stat. 348."

Appendix

[CAPTION OMITTED]

Order of September 22, 1958

This matter coming on to be heard on motion of Schering Corporation dated March 10th, 1958, to enter judgment on an arbitration award dated February 25th, 1958, and on a counter-motion of Hexagon Laboratories, Inc., dated March 31st, 1958, for leave to intervene in this action for the purpose of having this Court construe its final Order and Decree dated July 8th, 1955, and to vacate the aforesaid award of the arbitrators;

And the Court having considered the aforesaid motions and the affidavits, exhibits and memoranda in support of and in opposition to said motions, and having heard the arguments of counsel and due deliberation having been had thereon, and the Court having filed an opinion in the matter on August 14th, 1958,

It is, on this 22 day of September, A.D., 1958,

ORDERED: That the motion of Hexagon Laboratories, Inc., to intervene in this action for the purpose of moving this Court to construe its final Order and Decree dated July 8th, 1955; and to vacate the award of the arbitrators dated February 25th, 1958, be and the same is hereby granted; and it is further

ORDERED: That the motion of Hexagon Laboratories, Inc., to vacate the award of said arbitrators, dated February 25th, 1958, be and the same is hereby granted in all respects, and the said award be and the same is hereby vacated and for nothing holden, with costs in favor of said Hexagon Laboratories, Inc.; and it is further

ORDERED: That the motion of Schering Corporation to enter judgment on the aforesaid arbitration award dated February 25th, 1958, be and the same is hereby denied.

/s/ FORMAN
U.S.D.J.

Appendix

Respondent's Application for Relief in District Court

"Wherefore, premises considered, Schering Corporation respectfully moves this Honorable Court to enter an order making the award of Messrs. Fanto, Handler, and Schwoon dated February 25, 1958, fixing the rate of the reasonable royalty to be paid by Hexagon Laboratories, Inc. to the Schering Corporation for the right to make, use and sell Chlorprophenpyridamine Maleate under Patent No. 2,567,245, the judgment of this Court."

Petitioner's Application for Relief in District Court

"(a) construe its final order and decree dated July 8, 1955;

"(b) vacate the award of the arbitrators dated February 25, 1958; and

"(c) grant such other and further relief as to the court may seem just in the premises,"

Appendix

[CAPTION OMITTED]

Final Order

This case having been submitted by the parties upon the Stipulation of June 21, 1955, and a Pretrial Order having been entered herein on the 8th day of July, 1955, and the Court having rendered its opinion filed herein on March 21, 1955, which opinion shall be taken to apply to the entire proceeding including the complaint and answer herein, and it appearing that irreparable damage will result to the plaintiff unless the defendant is enjoined and restrained as hereinafter provided, it is hereby ORDERED as follows:

1. It is adjudged and declared:

(a) That the agreement between the parties made as of January 1, 1952, is a lawful and enforceable contract and imposes upon the defendant the obligation to perform the Agreement according to its terms and in good faith;

(b) That the Directive of January 5, 1952 imposes upon the defendant the obligation to perform, and upon its Directors and stockholders the obligation to permit, allow, direct and cause the defendant to perform, defendant's obligations under the Agreement, according to its terms and in good faith;

(c) That by Article II of the Agreement, defendant is required to recognize, and not to challenge, the validity of the assignments of patents made by defendant to plaintiff, pursuant to said Article II;

(d) That by Article VI of the Agreement, defendant is required to make to applicants for licenses offers to license without qualifications or conditions not ap-

pearing in the Agreement, and not contingent upon subsequent decisions by its Board of Directors to issue licenses;

(e) That the defendant is required to negotiate in good faith with applicants for licenses under Article VII of the Agreement, and to make offers to and to issue licenses to qualified applicants;

(f) That by Article VIII of the Agreement defendant is required forthwith to list the patents specified in Exhibit B of the Agreement on the Register of Patents Available for License or Sale, in the United States Patent Office, or, it appearing that the Register may have been succeeded by a substantially similar List or Notice, on said successor List or Notice.

2. Defendant is enjoined and restrained from failing, for more than sixty (60) days from the date hereof, to perform its duty as specified in paragraph 1 (f) hereof.

3. Jurisdiction is retained to entertain further applications with respect to relief as further circumstances may require.

(s) Hartshorne
U. S. D. J.

Dated:
7/8/55

Approved as to form only:

(s) David Schwartz
One of the Attorneys for Plaintiff

Milton, McNulty & Augelli
Attorneys for Defendant

(s) By Charles J. Milton
Charles J. Milton
Member of the Firm.

Appendix

[CAPTION OMITTED]

Order

This cause came on for hearing on the motion of defendant Schering Corporation dated September 20, 1956, for construction of the decree of the Court dated July 8, 1955, in which it was, *inter alia*, adjudged and declared that a certain Agreement between plaintiff and defendant made as of January 1, 1952, is a lawful and enforceable contract and imposes upon the defendant the obligation to perform the Agreement according to its terms and in good faith (Decree, para. 1(a)) and that defendant is required to negotiate in good faith with applicants for licenses under Article VI of said Agreement and to make offers and to issue licenses to qualified applicants (Decree, para. 1(c)).

The Court having considered the aforesaid motion, and its supporting memorandum of law and its attachment, being a certain letter contract dated April 2, 1954, between defendant Schering Corporation and Hexagon Laboratories, Inc., of New York; and the defendant having, specifically, moved that the Court adjudge, decree and declare that by virtue of said contract Hexagon Laboratories, Inc. is not a "qualified" applicant for a license from defendant under the terms of said decree of the Court of July 8, 1955, and under the terms of the said Agreement of January 1, 1952; and the Court having considered the said motion as so particularized; and the Court having considered the memorandum of the plaintiff, and having heard the parties; and Hexagon Laboratories, Inc. having ap-

peared as *amicus curiae;* and it appearing that the Court has jurisdiction of the motion pursuant to the provision of its decree dated July 8, 1955, that "Jurisdiction is retained to entertain further applications with respect to relief as further circumstances may require", and the Court having filed a memorandum opinion dated November 21, 1956, now therefore, it is hereby ORDERED as follows:

1. It is adjudged and declared that

(a) The words "qualified applicants", as used in paragraph 1(e) of the Court's decree of July 8, 1955, and in the Ninth Whereas Clause of the Agreement between the parties as of January 1, 1952, construed in said decree, were intended to refer to and mean and do refer to and mean the qualifications of applicants set out in the definition of applicants in Article VII C of the said Agreement between the parties as of January 1, 1952 (p. 11, Agreement, Ex. 2 to the Complaint herein), and were not intended to refer to and mean and do not refer to and mean any additional qualifications of whatever kind, and there are no additional qualifications for an applicant for a license under said Agreement beyond those set out in said Article VII C of the said Agreement.

(b) The said letter contract of April 2, 1954, does not disqualify, or bear on the qualifications of, Hexagon Laboratories, Inc., for a license under the said Agreement of January 1, 1952, and pursuant to said decree of the Court defendant Schering is required to perform the said Agreement and to negotiate for a license with said Hexagon Laboratories, Inc. and to arbitrate any disputes over rea-

sonable royalties, as required by above Article VI, and pursuant to the said lawful and enforceable agreement, all in good faith.

/s/ Hartshorne
U. S. D. J.

Dated:
1/14/57

Seen and approved:

/s/ David Schwartz
Counsel for Plaintiff, the
Attorney General of the U. S.

Approved as to form:

.....

Counsel for defendant,
Schering Corp.

Appendix

Arbitration Provisions of Agreement of January 1, 1952

ARTICLE VI. *Licensing Requirements; Arbitration in Certain Cases*

A. SCHERING agrees to grant to any applicant, upon written request therefor, a non-exclusive license, for manufacture in the United States, to make, use and sell under any, some, or all Patents which are listed in said Schedule 1 of Exhibit B, or are hereafter issued on any Patent Application listed in said Schedule 2 of Exhibit B; such license to be granted without any restriction whatever except that

(1) a reasonable and non-discriminatory royalty may be charged and collected;

(2) provision may be made for requiring the licensee to keep books and records in such form and in such detail as to enable the royalties payable to SCHERING to be determined, and for the periodic inspection of such books and records by an independent auditor who shall report to SCHERING only the amount of money due and owing;

(3) reasonable provision may be made for cancellation upon failure of the licensee to pay royalties or keep books and records or permit such inspection of its books and records;

(4) the license may be made non-transferable and non-assignable by the licensee.

B. (1) Any license granted by SCHERING pursuant to this Article VI shall provide for the licensee's right to

surrender such license upon 30 days' written notice to SCHERING.

(2) SCHERING shall not assign or otherwise dispose of any Patents or Patent Applications listed in said Exhibit B except subject to the same licensing obligations as are provided for in this Agreement.

C. (1) Within 30 days after receipt of written application for a license SCHERING shall advise the applicant of the royalty which SCHERING deems reasonable for the Patents to which the application pertains.

(2) If the applicant and SCHERING have been unable to agree, within 60 days from the date such application is received by SCHERING, upon what constitutes a reasonable royalty, the applicant may forthwith give written notice to SCHERING that it elects to submit to arbitration, in accordance with the rules then obtaining of the American Arbitration Association, the determination of a reasonable royalty for the requested license, the arbitration tribunal to consist of three arbitrators, all of whom shall be citizens and residents of the United States, selected from the panels of arbitrators of the American Arbitration Association, in accordance with the rules of said Association.

D. Pending the determination of a reasonable royalty by negotiation or arbitration, the applicant may give SCHERING written notice that the applicant will accept an interim license, effective upon receipt of such notice by SCHERING, on the terms, including the royalty terms, there-

tofore proposed by SCHERING, whereupon such interim license shall become effective; provided, however, that when the reasonable royalty is finally determined by agreement or by arbitration the royalty so determined shall be retroactive to the effective date of the interim license. If SCHERING shall have failed to advise the applicant of the royalty which it deems reasonable, as provided in paragraph C of this Article VI, said interim license shall be deemed to be royalty-free.

E. Upon receipt from the applicant of the notice described in subparagraph C(2) of this Article VI, SCHERING will promptly

(1) give written notice to the applicant that SCHERING agrees to submit to arbitration, by the American Arbitration Association in accordance with its rules then obtaining, the determination of a reasonable royalty; and

(2) give written notice to the ATTORNEY GENERAL of the receipt of the aforesaid notice from the applicant, enclosing therewith a copy of the notice required to be given by SCHERING to the applicant in accordance with subparagraph E(1) of this Article VI.

F. SCHERING agrees, and may require the applicant to agree

(1) that the arbitration proceeding shall be conducted at Bloomfield, New Jersey, unless the parties to the arbitration mutually agree on some other place;

(2) that it will do all things reasonably necessary to enable the arbitration to proceed in an effective manner to a hearing and decision;

(3) that the arbitration be conducted according to the rules then obtaining of the American Arbitration Association;

(4) that the jurisdiction of the arbitration tribunal shall be limited to a determination of a reasonable royalty rate to be paid by the licensee;

(5) that it will be conclusively bound by and will abide by and perform the determination or award of the arbitration tribunal or a majority thereof, as to what constitutes a reasonable royalty for the Patents to which the application pertains, provided that the determination or award of the arbitration tribunal shall be binding upon the parties only if it is in writing and signed by two or more members of the tribunal;

(6) that judgment upon the award rendered may be entered in any Court having jurisdiction thereof;

(7) that the reasonable royalty finally determined by the arbitration tribunal shall be retroactive to the effective date of the interim license, if any, referred to in paragraph D of this Article VI.

G. Whenever a reasonable royalty has been determined by arbitration in accordance with the procedure described in this Article VI with respect to any Patent or Patents, the same royalty shall be offered thereafter (but not retroactively) by SCHERING to all other licensees of the same Patent or Patents under licenses in effect at the date of such determination and under licenses thereafter granted by SCHERING.

[LETTERHEAD OF]

HEXAGON LABORATORIES

INCORPORATED

July 6, 1956

Schering Corp.
2 Broad Street
Bloomfield, New Jersey

Gentlemen:

Pursuant to the agreement made January 1, 1952, by and between your company and the Attorney General of the United States in which you agree to grant to any applicant, upon written request therefor, a nonexclusive license for manufacture in the United States to make, use, and sell under any of the patents listed and described therein, the undersigned, Hexagon Laboratories, Inc., hereby makes written application for a license to make, use, and sell the substance or drug described in Patent No. 2,567,245, known as Chlorprophenpyridamine Maleate.

In accordance with the provisions of the said agreement, you are required to advise us of the royalty which you determine reasonable for the patent to which this application pertains within 30 days after receipt of this application.

Very truly yours,

HEXAGON LABORATORIES, INC.
Harold R. Frost
Harold R. Frost
President

HRF:eh

Registered Mail
Return Receipt Requested

August 6, 1956

Hexagon Laboratories, Inc.
3532-40 Peartree Avenue
New York 69, New York

Attention: Mr. Harold R. Frost, President

Gentlemen:

This has further reference to the recent correspondence concerning your desire to receive a license under United States Letters Patent No. 2,567,245.

In order that our rights be not prejudiced and, indeed, with a full reservation thereof, including the right to contend that the Corporation is under no obligation to grant a license to you, we furnish you herewith a statement of the conclusion reached by the Corporation as to what it deems to be a reasonable royalty for a non-exclusive license under the patent in question.

United States Letters Patent No. 2,567,245 is owned by, and record title thereto is vested in, Schering Corporation, and covers new substances of unusual effectiveness and therapeutic excellence. Accordingly, the Corporation deems the following to be a reasonable royalty for a non-exclusive license under this patent, namely:

1. An earned royalty of 1⅛ mills ($.001125) per milligram of all licensed products manufactured, and
2. A guaranteed minimum royalty of $10,000 per annum.

Very truly yours,

Richard J. Bennett
Assistant General Counsel

RJB:eh

Registered Mail
Return Receipt Requested

August 21, 1956

Schering Corporation
60 Orange Street
Bloomfield, New Jersey

Gentlemen:

We acknowledge receipt of your letter dated August 6, 1956, in further reference to our application for a license under United States Letters Patent No. 2,567,245, wherein you state you deem

"The following to be a reasonable royalty for a non-exclusive license under this patent, namely;

(1) An earned royalty of 1⅛ mills ($.001125) per milligram of all licensed products manufactured, and

(2) A guaranteed minimum of $10,000 per annum".

We manufacture basic pharmaceuticals and sell the same in bulk to other manufacturers. Our only product under this license would be the basic drug CHLORPHENIRAMINE MALEATE U. S. P. which we would sell to others who would further manufacture the material into final dosage form. We can exercise no control over such drugs after it has been sold to our customers and passes into their hands. Accordingly a proposed royalty which is measured by a fixed sum "Per milligram of all licensed products manufactured" is either illegal or so indefinite or both as to constitute no advice of what you deem a reasonable royalty.

If you propose to measure the royalty by the afore mentioned fixed sum per milligram of the licensed products manufactured *by us* we advise you further as follows;

Such royalty is unreasonable. The drug is not exclusive. It has been on the market for a number of years under your own brand name. Such royalty is in excess of $500.00 per pound of basic drug. It would impose a burden upon and even prohibit not only the sale but also the manufacture of the drug. We suggest that a request for such an exorbitant royalty would be primarily for the purpose of discouraging and preventing the manufacture and sale of the drug.

We are advised and believe that the usual and customary royalty prevailing in our industry for a non-exclusive license is as follows;

"An earned royalty of 5% of all sales of the licensed drug by the licensee".

The matter therefor[e] becomes the subject of further negotiations or arbitration between us under the provisions of your agreement with the Attorney General of the United States made as of January 1, 1952. In the meantime, we hereby give you written notice that we accept an interim license effective upon receipt of this notice by you subject to the pertinent provisions of the afore mentioned agreement between your firm and the Attorney General.

Very truly yours,

HEXAGON LABORATORIES, INC.

Harold R. Frost
Harold R. Frost
President

HRF:eh

Appendix

AMERICAN ARBITRATION ASSOCIATION
ADMINISTRATOR

COMMERCIAL ARBITRATION TRIBUNAL

Demand for Arbitration

To: SCHERING CORPORATION
60 Orange Street
Bloomfield, New Jersey

The undersigned, pursuant to an Arbitration Agreement contained in or relating to a written contract made as of the 1st day of January, 1952, by and between Schering Corporation and the Attorney General of the United States, which agreement provides in part as follows:

Article VI, Subdivision C (2). If the applicant and SCHERING have been unable to agree, within 60 days from the date such application is received by SCHERING, upon what constitutes a reasonable royalty, the applicant may forthwith give written notice to SCHERING that it elects to submit to arbitration, in accordance with the rules then obtaining of the American Arbitration Association, the determination of a reasonable royalty for the requested license, the arbitration tribunal to consist of three arbitrators, all of whom shall be citizens and residents of the United States, selected from the panels of arbitrators of the American Arbitration Association, in accordance with the rules of said Association.

Article VI, Subdivision E (1) *and* (2). Upon receipt from the applicant of the notice described

in subparagraph C (2) of this Article VI, SCHERING will promptly

(1) give written notice to the applicant that SCHERING agrees to submit to arbitration, by the American Arbitration Association in accordance with its rules then obtaining, the determination of a reasonable royalty; and

(2) give written notice to the ATTORNEY GENERAL of the receipt of the aforesaid notice from the applicant, enclosing therewith a copy of the notice required to be given by SCHERING to the applicant in accordance with subparagraph E (1) of this Article VI.

Article VI, Subdivision F (1) *through* (7) *inclusive.* SCHERING agrees, and may require the applicant to agree

(1) that the arbitration proceeding shall be conducted at Bloomfield, New Jersey, unless the parties to the arbitration mutually agree on some other place;

(2) that it will do all things reasonably necessary to enable the arbitration to proceed in an effective manner to a hearing and decision;

(3) that the arbitration be conducted according to the rules then obtaining of the American Arbitration Association;

(4) that the jurisdiction of the arbitration tribunal shall be limited to a determination of reasonable royalty rate to be paid by the licensee;

(5) that it will be conclusively bound by and will abide by and perform the determination or award of the arbitration tribunal or a majority thereof, as to what constitutes a reasonable royalty for the Patents to which the application pertains, provided that the determination or award of the arbitration tribunal shall be binding upon the parties only if it is in writing and signed by two or more members of the tribunal;

(6) that judgment upon the award rendered may be entered in any Court having jurisdiction thereof;

(7) that the reasonable royalty finally determined by the arbitration tribunal shall be retroactive to the effective date of the interim license, if any, referred to in paragraph D of this Article VI.

hereby demands arbitration of the following dispute which is subject to arbitration thereunder.

CLAIM OR RELIEF SOUGHT: The reasonable and non-discriminatory royalty for a non-exclusive license for manufacture in the United States to make, use and sell the substance or drug described in United States Patent No. 2,567,245 is "an earned royalty of all sales of the licensed drug by the licensee."

You are hereby notified that a copy of the Arbitration Agreement and of this Demand is being filed with the American Arbitration Association, Administrator, with the request that it immediately put its Rules into effect and furnish each Party with an identical list of names of persons taken from the panels maintained by the Association. When the list is received, you are hereby requested to

proceed with the selection of three Arbitrators in accordance with said Rules. *Under Rule III Section 7 you may file an answering statement within seven days after the mailing of notice from the Administrator.*

Dated: September 8, 1956

Signed: HEXAGON LABORATORIES, INC.

Title: Harold R. Frost President

Address: c/o Montrose H. Massler
36 West 44th Street
New York 36, N. Y.

Telephone: Mu. 2-7220

A copy of this Demand must be filed with the American Arbitration Association and the administrative fee paid, as provided in the Rules, in order to institute proceedings under the Rules.

Case No.